

Message Text

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E.O. 11652: GDS

TAGS: EGEN, ECON, XC, XE, XP

SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT,
AUGUST 23, 1977

1. ROSENTHAL REPORT ON COMMERCE/STATE TRADE PROMOTION
PROGRAMS (UNCLASSIFIED)

US TRADE PROMOTION PROGRAMS TOOK A PASTING IN A STUDY
BY THE COMMERCE, CONSUMER, AND MONETARY AFFAIRS
SUBCOMMITTEE, CHAIRED BY BEN ROSENTHAL, OF THE HOUSE
COMMITTEE ON GOVERNMENT OPERATIONS. THE SUBCOMMITTEE
REPORT FOUND THAT TRADE CENTERS MAINLY SERVE ESTABLISHED
EXPORTERS, CANNIBALIZED OTHER, MORE VALUABLE COMMERCIAL
PROGRAMS, DUPLICATE EXISTING PRIVATE SERVICES, AND YIELD
DUBIOUS SALES RESULTS; IT RECOMMENDED THEY ALL BE
ABOLISHED. IT SUGGESTED, AS AN ALTERNATIVE, A MOVABLE
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EXHIBIT STAFF TO ASSIST US PARTICIPATION IN PRIVATE
TRADE FAIRS. AMONG OTHER MAJOR RECOMMENDATIONS, COMMERCE
SHOULD CATALOGUE ALL PRIVATE SECTOR EXPORT ASSISTANCE
AND DESIGN ITS PROGRAMS TO BE SUPPLEMENTARY, AND IT
SHOULD RESTRUCTURE THESE PROGRAMS TO BENEFIT PRINCIPALLY
SMALL BUSINESS WITHOUT EXPORT EXPERIENCE.

WE EXPECT THAT THE COMMITTEE WILL SOON REQUEST STATE AND
COMMERCE TO COMMENT ON THE RECOMMENDATIONS.

IN THE MEANTIME, SUBCOMMITTEE MEMBER DRINAN OF MASSACHUSETTS, ACCOMPANIED BY RONALD KLEMPNER, THE STAFFER CHIEFLY RESPONSIBLE FOR THE REPORT, WILL BE VISITING THE TRADE CENTERS AND COMMERCIAL FACILITIES IN TOKYO, TAIPEI, SINGAPORE, HONG KONG, AND JAKARTA AUGUST 25 THROUGH SEPTEMBER 3. CODEL VANIK, CHAIRMAN OF THE WAYS AND MEANS SUBCOMMITTEE ON TRADE, HAS ALSO INCLUDED EXPORT PROMOTION (IN ADDITION TO TEXTILES AND STEEL) IN THE AGENDA OF HIS SEPTEMBER 6-18 TRIP TO HONG KONG, SINGAPORE, TAIPEI AND TOKYO.

2. SYDNEY TRADE CENTER (LIMITED OFFICIAL USE)

COMMERCE HAS DECIDED, ONCE AGAIN, TO CLOSE THE SYDNEY TRADE CENTER. AN INSPIRED LOBBYING EFFORT IN THE HOUSE APPROPRIATIONS COMMITTEE BY THE SYDNEY AMERICAN CHAMBER HELPED GIVE THE CENTER A SHAKY LEASE ON LIFE AFTER FUNDS FOR THE CENTER WERE OMITTED FROM THE ADMINISTRATION'S BUDGET SUBMISSION. WITH THE ROSENTHAL REPORT (SEE SEPARATE ITEM) AS ADDED AMMUNITION, HOWEVER, COMMERCE HAS AGAIN GAINED THE SUPPORT OF THE HOUSE APPROPRIATIONS COMMITTEE AND HAS NOTIFIED THE CENTER BY CONFIDENTIAL

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PHONE THAT FUNDING WILL CEASE OCTOBER 1. THE SYDNEY AMCHAM HAS RENEWED ITS PROTEST IN LETTERS TO SUBCOMMITTEE MEMBERS.

WE ARE CONCERNED BY THE BACK DOOR METHODS COMMERCE HAS USED TO GAIN THIS OBJECTIVE AND BY ITS RISKY ALLIANCE ON THIS MATTER WITH FORCES ON THE HILL WHO FAVOR ABOLITION OF THE ENTIRE TRADE CENTER PROGRAM. WE HAVE NOT YET RECEIVED A DRAFT CABLE FROM COMMERCE INSTRUCTING THE CENTER TO CLOSE, BUT WE DOUBT THAT BY ITSELF EA HAS THE INFLUENCE TO TURN THE SITUATION AROUND.

3. INSPECTION REPORT ON DEPARTMENT'S ECONOMIC FUNCTION (LIMITED OFFICIAL USE)

IN A NUTSHELL, THE INSPECTION REPORT CONCLUDED THAT THE DEPARTMENT HAD DONE AN EXCELLENT JOB MEETING INCREASINGLY DIFFICULT FOREIGN ECONOMIC POLICY TASKS, BUT IT GAVE MOST OF THE CREDIT TO EB. IT FOUND THAT BOTH REGIONAL BUREAUS AND THE OVERSEAS MISSIONS HAVE SEEN THEIR INFLUENCE ON FOREIGN ECONOMIC POLICY REDUCED.

THE INSPECTORS DISCERNED AN INCREASING TREND TO MULTILATERALISM IN THE MANAGEMENT OF US ECONOMIC INTERESTS; AT THE SAME TIME, ATTENTION TO IMPORTANT BILATERAL

BILATERAL ISSUES HAS SUFFERED, AND THERE IS CONCERN

THAT THE REGIONAL BUREAUS ARE OFTEN UNABLE TO BRING IMPORTANT BILATERAL FACTORS TO BEAR ON KEY ECONOMIC POLICY QUESTIONS. NEGOTIATIONS ARE INCREASINGLY HANDLED FROM WASHINGTON, WITH A CONSEQUENT DOWNGRADING OF THE ROLE OF OVERSEAS MISSIONS. THE FLOW OF INFORMATION AND GUIDANCE BETWEEN EB AND THE REGIONAL BUREAUS AND TO POSTS ABROAD HAS DETERIORATED IN RECENT YEARS. THE INSPECTORS FOUND THAT SENIOR POSITIONS AT POSTS WITH A HEAVY ECONOMIC/COMMERCIAL WORKLOAD ARE STAFFED WITHOUT CONFIDENTIAL

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CONSULTATION WITH EB, (I.E. WITH NON-E/C OFFICERS). THEY FOUND, MOREOVER, THAT E/C OFFICERS FIND REGIONAL JOBS RELATIVELY LESS ATTRACTIVE THEN EB.

THE COMMERCIAL FUNCTION WAS SINGLED OUT FOR PARTICULAR CRITICISM. THE INSPECTORS FOUND THAT HIGH LEVEL STATE DEPARTMENT INTEREST IN THE COMMERCIAL FUNCTION HAS FALLEN DRASTICALLY IN THE LAST TWO YEARS AND THAT THE STAFFING IN EB AND THE REGIONAL BUREAUS HAS GOTTEN FAR OUT OF ALIGNMENT WITH THE PROPER DIVISION OF RESPONSIBILITY, AS SEEN BY THE INSPECTORS.

THE MAJOR RECOMMENDATIONS AFFECTING EA ARE THAT REGIONAL BUREAUS UPGRADE THEIR ECONOMIC STAFFING, THAT INFORMATIONAL GUIDANCE TO OVERSEAS MISSIONS BE IMPROVED, AND TO DEFINE THE FOREIGN ECONOMIC POLICY ROLES OF EACH BUREAU FOR INCORPORATION INTO THE FAM. THE INITIAL BUREAU RESPONSE IS DUE AT THE END OF SEPTEMBER.

4. TAXATION OF OVERSEAS INCOME AND ALLOWANCES (CONFIDENTIAL)

FOLLOWING HIGH LEVEL MEETINGS BETWEEN STATE AND TREASURY LAST WEEK THAT APPEARED TO NARROW APPRECIABLY THE DIFFERENCES IN VIEW, THE DEPARTMENT IS DRAFTING A LETTER TO TREASURY SECRETARY BLUMENTHAL, WHICH WILL ALSO GO TO THE PRESIDENT ALONG WITH TREASURY'S TAX PROPOSALS, GIVING THE DEPARTMENT'S POSITION ON SECTION 911, TAXATION OF PRIVATE US CITIZENS WORKING OVERSEAS.

THE STATE POSITION WILL PROBABLY HAVE THESE ELEMENTS:

EITHER A FLAT EXEMPTION OF THE LAST 15,000 DOLLARS
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EARNED OR AN ITEMIZED LIST OF EXEMPTIONS AS FOLLOWS:

-- HOUSING ALLOWANCES ABOVE 15 PERCENT OF SALARY;

-- ONE R AND R (HARDSHIP POSTS ONLY) OR HOME LEAVE
TRIP PER YEAR FOR ALL FAMILY MEMBERS;

-- EDUCATION UP TO 5,000 DOLLARS PER CHILD THROUGH HIGH
SCHOOL, INCLUDING UP TO TWO ROUND TRIPS PER YEAR, AND
TRAVEL ONLY FOR COLLEGE STUDENT; AND

-- COST OF LIVING.

STATE'S POSITION ON SECTION 912, TAXATION OF GOVERNMENT
EMPLOYEES OVERSEAS, REMAINS OF FIRM OPPOSITION TO ANY
CHANGE IN THE PRESENT EXEMPTIONS.

ALTHOUGH THERE ARE DIFFERENCES WITH TREASURY STAFF ON
BOTH SECTIONS, IT IS STILL POSSIBLE THAT SECRETARY
BLUMENTHAL MAY DECIDE TO MOVE CLOSE TO THE STATE
POSITION IN THE TAX PROPOSALS SENT TO THE PRESIDENT.

5. APPEAL AGAINST GRAIN PRODUCTION RESTRICTIONS
(UNCLASSIFIED)

PRESIDENT OF THE WORLD FOOD COUNCIL AND PHILIPPINE
SECRETARY OF AGRICULTURE TANCO, IN A SPEECH IN MANILA
APPEALED TO SECRETARY BERGLAND AND THE US CONGRESS NOT
TO IMPOSE PRODUCTION RESTRICTIONS ON WHEAT AND OTHER
FOOD CROPS. TANCO POINTED OUT THAT IF PRODUCTION
LIMITATIONS HAD NOT BEEN IMPOSED FROM 1968-72 AN
ADDITIONAL 90 MILLION TONS OF WHEAT WOULD HAVE BEEN
PRODUCED WHICH WOULD HAVE BEEN SUFFICIENT TO AVOID THE
1973-74 FOOD CRISIS. NOW IS THE TIME TO BUILD WORLD
GRAIN RESERVES TO INSURE A STABLE SUPPLY.

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6. COPPER (LIMITED OFFICIAL USE)

THE FOURTH MEETING OF THE INTERGOVERNMENTAL EXPERTS
GROUP ON COPPER WENT WELL FROM THE US POINT OF VIEW.
THE IEGC SUPPLIED DETAILED TERMS OF REFERENCE TO THE
UNCTAD SECRETARIAT REGARDING AN ECONOMETRIC STUDY OF
THE COPPER MARKET THUS COUNTERING THE SECRETARIAT'S
ATTEMPT TO "GUT" THE STUDY. THE US ALSO GARNERED THE
CHAIRMANSHIP OF THE IEGC WHICH WILL ENABLE US TO KEEP
A CLOSE REIN ON THE SECRETARIAT.

CHRISTOPHER

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